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TO RUEHC/SECSTATE WASHDC PRIORITY 9369
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 2758
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0582
RUEHKO/AMEMBASSY TOKYO PRIORITY 0458
RUEHIT/AMCONSUL ISTANBUL PRIORITY 1041
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY

UNCLAS SECTION 01 OF 03 ASHGABAT 000975

SIPDIS

SENSITIVE
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STATE FOR SCA/CEN, EUR/ACE, EEB
TREASURY FOR JEFFREY BAKER

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [EAID](#) [ETRD](#) [TX](#)

SUBJECT: TURKMENISTAN: U.S.TREASURY DEPARTMENT IDENTIFIES
POSSIBILITIES FOR COOPERATION

REF: ASHGABAT 0930

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: A September 10 visit by a Department of the Treasury delegation demonstrated both a strong need for monetary and fiscal policy reform, and that Treasury assistance would be useful. Although the Central Bank's Chairman asserted that reform was unnecessary, the meetings with officials from the Ministry of Economy and Finance, Ministry of Foreign Affairs and Ministry of Welfare and Social Care revealed substantial reform-related challenges, including revamping the pension system and managing Turkmenistan's many subsidies, which currently form the basis of the state's social safety net. A next step might be to send more narrowly focused Treasury assessment teams to discuss in greater depth with the Ministry of Economy and Finance and the Ministry of Welfare where cooperation might be most effective. END SUMMARY.

13. (SBU) A September 10 visit by a Department of the Treasury delegation, which included Deputy Director for Europe and Eurasia of the Office of International Affairs Jeffrey Baker and Office of Technical Assistance's Government Debt Issuance and Management team member Thomas Lanier, met with Turkmenistan government officials to discuss fiscal policy reform and areas of possible future cooperation. The delegation met with Minister of Welfare and Social Care Gurbandurdy Kakalyev, First Deputy Minister of Economy and Finance Turvakmammet Japarov, Central Bank Chairman Geldimyrat Abylov, and Ministry of Foreign Affairs' Americas Desk Chief Serdar Bashimov. Baker and Lanier also heard the views of the local Asian Development Bank Liaison Officer, World Bank representative, EU-Tacis Advisor, and UNDP Deputy Resident Representative.

SOCIAL SECURITY IS AN AREA OF CONCERN

14. (SBU) A meeting with the Minister of Welfare and Social Care Gurbandurdy Kakalyev revealed that the Ministry is

creeping cautiously toward implementing an ambitious new pension system. Kakaliyev said under a new law introduced in March the Ministry was required to expand the number of pension recipients this year by 35 percent, including those employed in the agriculture sector (and presumably those who had been removed from the pension lists under Niyazov). Additionally, the Ministry has been tasked with shifting the pension program away from dispersal through the state budget to a more self-sufficient program that collects voluntary contributions from the employed, invests these funds, then distributes them to citizens through a bank registered in Turkmenistan (by default, this means a state bank).

MINISTRY OF ECONOMY AND FINANCE INTERESTED IN INVESTOR ROADMAP

15. (SBU) First Deputy Minister of Economy and Finance (MOEF) Tuvakmammot Japarov said the Ministry plans to work on the Investor Roadmap, a project first proposed during USAID Deputy Assistant Administrator Drew Luten's July visit, adding that it would make the investment climate more transparent and encourage international investment. He asked that USAID send a copy of the Investor Roadmap from any country in the world that has completed the project, to help Turkmenistan understand better what it involves. (NOTE: USAID plans to pass to the Ministry a copy of the Investor Roadmap from Ukraine. END NOTE.) The Ministry plans to work on the Investor Roadmap towards the end of the year, after its immediate obligations, such as the budget, are completed. Currently the Ministry is making the necessary preparations, including modifications to laws. When the Charge said USAID regional expert Michael Boyd could visit to assist with the work on the Investor Roadmap, Japarov's colleague, head of the analytical department Galina Romanova, said she would

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welcome such a visit later this year, once her office finishes work on the budget.

SUBSIDIES ARE INEFFICIENT, NEED TO BE TRANSPARENT

16. (SBU) Baker and Lanier encouraged Japarov to develop sectors other than hydrocarbons to diversify Turkmenistan's economy. They specifically advised MOEF to focus on developing sectors that will create the most jobs, and to create a private-sector economy. Also, they raised concerns about the inevitability of inflation due to increased spending from the increase in pension payments. Japarov stated that the current industrial development policy is directed toward ending overdependence on the hydrocarbon sector. When he began to list the subsidies Turkmenistan provides as part of its social stability net, Baker and Lanier suggested all subsidies should be explicitly and transparently reflected in the budget to promote their better-targeted and more efficient use. Japarov said that he could not speak for the Central Bank, but the MOEF would welcome doing away with the dual exchange rate. Baker and Lanier recommended that budget reform with an emphasis on quantifying subsidies and encouragement of private-sector development might be an area of possible bilateral cooperation. Japarov also expressed interest in working on a dual-taxation treaty, as he has a number of times in the past.

CENTRAL BANK: NOT SO PRODUCTIVE

17. (SBU) Central Bank of Turkmenistan (CBT) Governor Geldimyrat Abylov asserted the CBT's strong control over the banking sector and praised its ongoing cooperation with the International Monetary Fund (IMF) and World Bank. Abylov offered to participate in U.S. government-funded anti-money laundering and banking supervision training activities, if invited, but became prickly when asked about the CBT's plans for exchange rate unification. He claimed that Turkmenistan needed "substantial" foreign exchange reserves before it could pursue unification, and asserted the exchange rate was already slowly changing. Throughout the meeting, Abylov

aggressively defended Turkmenistan's considerable system of subsidies and challenged the delegation to personally take advantage of the CBT's low capital requirement to start a new bank.

SIGNS OF ENCOURAGEMENT FROM THE MINISTRY OF FOREIGN AFFAIRS

18. (SBU) In his meeting with Baker and Lanier, the Chief of the Ministry of Foreign Affairs' Americas Department, Serdar Bashimov, stressed Turkmenistan's wish to broaden cooperation with the United States and said his country welcomed training, especially at the expert level. He said Turkmenistan wants to cooperate in regional projects, including in regional civil aviation and telecom events, within the Trade and Investment Framework Agreement. Bashimov also welcomed the upcoming USTDA-hosted visit of Turkmenistani oil and gas officials to the United States as a "symbol of the relationship moving in the right direction."

MUCH WORK TO DO

19. (SBU) After their meetings, Baker and Lanier gave an overall assessment that there were areas with potential for cooperation, but at the same time noted the lack of acknowledgement of the role of the private sector in a thriving economy. They concluded that reform of the pension system and budgeting are areas with a lot of potential. Baker shared concerns about inevitable inflation stemming from a spending increase on pensions, because the Ministry for Welfare and Social Care seems not to have any planning in mind. Likewise, he said two possible projects would be to quantify subsidies at the MOEF and to educate the Ministry on

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the inefficiency and true costs of subsidies.

10. (SBU) COMMENT: Nearly everybody (except Abylov) agrees that economic and financial reforms are necessary in Turkmenistan, and most also recognize that increased foreign investment will not come until there are changes that result in an improved investment climate. Local donors also agreed that the Department of the Treasury's expertise would be a valuable addition to the assistance effort here. A next step might be to send a narrowly focused Treasury assessment team that can spend considerably more time at the expert level to discuss and agree on areas that Treasury assistance might be most needed. END COMMENT.
HOAGLAND